

Unemployment (measuring)

U.S. Census Bureau conducts a
Survey of approx 60,000 households
Current Population Survey (CPS)

To Be counted As unemployed, a
Person must be looking for work, but
not have a job.

To Be employed you have to either
(1) have a job outside of the home
or (2) " " " inside the home and
get paid for doing it.

LABOR Force: all people 16 years of age
and older who are either employed
(working) or unemployed (not working But
actively looking for work)

A discouraged worker is one who cannot find a job and quits looking for one.

Part-timers: are counted as being employed. Fr the LF and are waiting for pay. (officially work < 34 hours/wk)

about 26% of workers are part-time
32% of women
20% of men

Employment-to-Population Ratio

$$\frac{\text{Employed}}{\text{Working AGE Population}}$$

Since Parttimers count as employed, there is another measure of labor input into GDP: Aggregate Hours worked.

This has been falling since 1999, AND fell steeply during recession. It is starting to recover in 2010 BUT is falling again.

Unemployment fluctuates quite a bit.

Natural unemployment rate:

The unemployment rate that exists if there is no recession or no boom. It is a long-run "normal" rate. $\text{Real GDP} = \text{Potential}^*$
 $y = y^*$

The actual unemployment rate fluctuates around the natural rate

Cyclical - unemployment due to recession $\text{Actual } U > \text{Natural rate}$.

frictional - normal amount due to job switching, turnover, or new entrants into LF.

Structural - openings = applicants but applicants are not qualified for the available jobs. Can also be due to insufficient incentives to work.

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The Natural Rate of unemployment changes slowly over time.

It rose during 1960^s & 1970^s as there was a large influx of new ~~the~~ workers into LF

(i) Baby Boomers

(ii) Female LF participation ↑

It can also rise due to generosity of welfare benefits, unemployment compensation and other incentives not to work.

Why are people Unemployed?

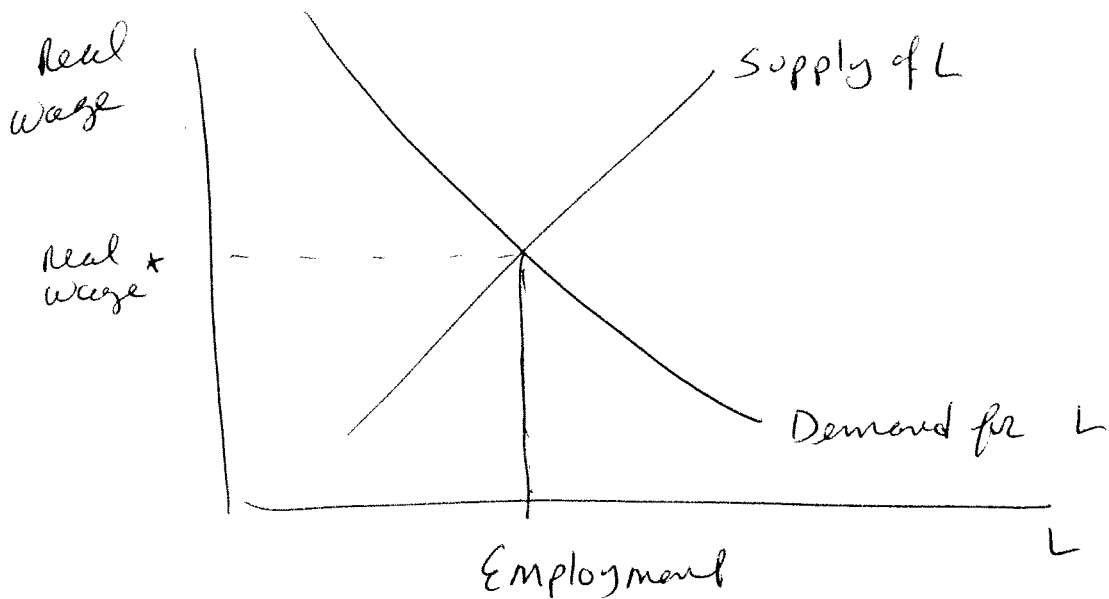
- i) lose job
 - ii) quit job
 - iii) new entrants into LF
 - iv) re-enter after being out of LF for a while
- } not necessarily Bad for economy as a whole.

How long does Unemployment last?

Duration

Model of LABA Met.

$$\text{Real wage} = \frac{\text{Wage}}{\text{Price level.}}$$



As economy booms (Above potential)

LABA Demand increases (shifts right)

Employment rises as do real wages.

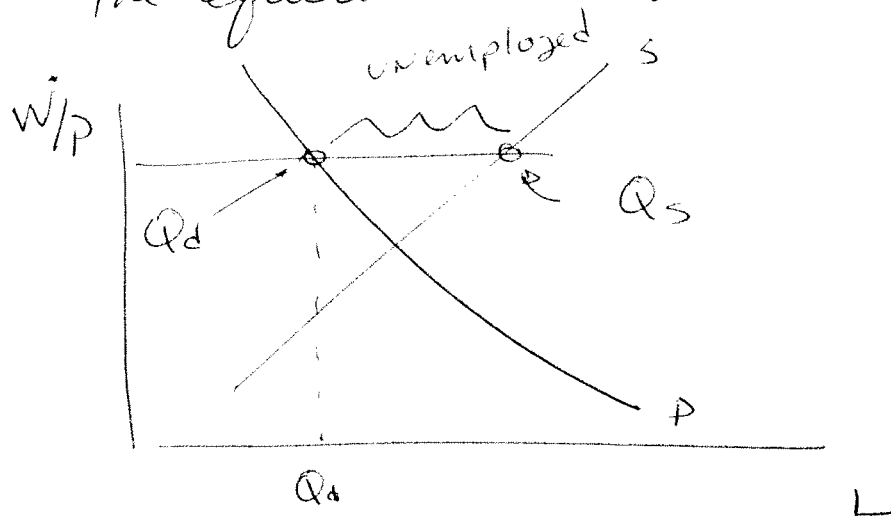
In Recession, The opposite happens.

LABA Demand falls, wages and employment fall as well.

Two ways to account for unemployment

(1) Job Rationing.

For some reason, the actual is above the equilibrium wage.



AT w^*/p , $Q_d < Q_s$.

Firms only hire up to Q_d .

$Q_s - Q_d$ are unemployed.

Firms choose which of the available workers to hire. Hence Job Rationing.

Why won't wages fall (which would reduce unemployment)?

Three Possibilities

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(a) Minimum wage is too high.

Firms are legally prohibited from lowering wages.

⇒ accounts for very high levels of teenage unemployment and among new entrants into LF.

(b) insiders vs outsiders

insiders already work for the firm and have some influence over wage. They act to prevent lower wages. (Unions, for example)

outsiders would be willing to work for lower pay, but since pay doesn't fall, firms don't hire.

(c) efficiency wage.

Firms pay above eq. wage as an incentive to reduce turnover and improve worker efficiency.

Henry Ford did this quite effectively in 1920's.

(2) Job Search.

Since eg. never really occurs (constant changes in entry, job availability, plant closings etc) there are always people either being thrown out of work or entering and reentering LF.

When this happens, people will often hold out for higher paying jobs rather than accept the first lower paying job that comes along.

Natural Rate of Unemployment

- Tends to be low in countries where labor markets are flexible and free.
- minimum wage, unemployment compensation, mandated benefits, all tend to make rate higher.
- More general education and better information about available jobs in candidates tends to reduce it.